



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: February 10, 2020

TO: House and Senate Tax Members
House Appropriations Members
Senate Finance and Claims Members

FROM: LFD Revenue Team

RE: FY 2020 General Fund Revenue Update #3

GENERAL FUND REVENUE SUMMARY

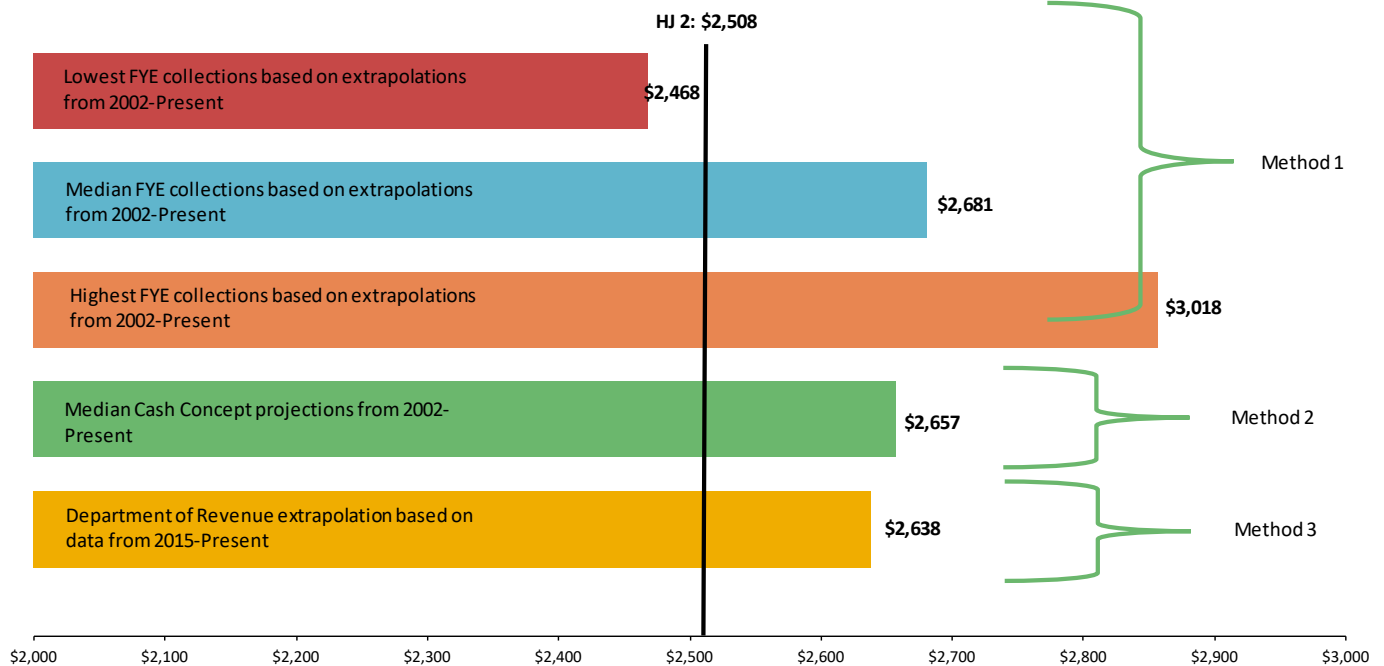
This is the third of seven monthly revenue updates beginning in December, and continuing throughout the second half of FY 2020. These updates are designed to apprise interested members of the legislature on year-to-date general fund revenue collections, recent economic trends, and the outlook for FY 2020 relative to the revenue estimate contained in HJ 2.

Year-to-date general fund collections continue to be stronger than the estimate contained in HJ 2. FY 2020 general fund revenues through the end of January are \$92.5 million or 6.4% above FY 2019 revenues through the same period. At this point in FY 2019 there was \$19.0 million of one-time-only (OTO) revenues, compared to \$4.1 million in FY 2020. When these are excluded the ongoing year-over-year growth is 7.5%.

Two separate analyses were examined to predict possible year-end collections based on data through January. In the previous monthly update these two methods yielded wildly different results, due to the significant variability between December and January individual income tax estimated payments and property tax remissions by counties to the state. With January concluding, they are now in more agreement.

As shown in the graph on the next page, current estimates of fiscal year final collections indicate collections will exceed HJ 2 by over \$100 million.

FY 2020 Year-End Revenue Extrapolations Based on Data Through January (\$ Millions)



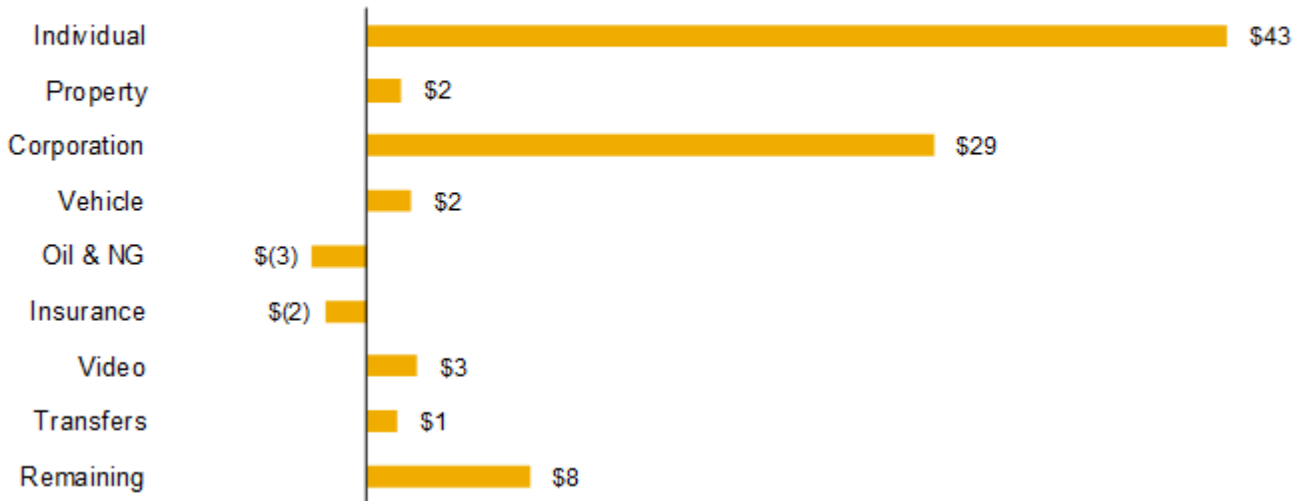
Both the average and median extrapolation calculations (Method 1) suggest that final collections will be \$2,681 million. This represents final collections of 6.9% above HJ 2 or \$173 million above HJ 2. The possible high and low extrapolations yield 13.9% above HJ 2 and 1.6% below HJ 2 respectively. In dollar amounts, the high extrapolation would be \$348 million above HJ 2 while the low estimate represents \$40 million below HJ 2.

The cash-concept model (Method 2) currently suggests final collections will be 5.9% above HJ 2 or \$148 million above HJ 2.

The extrapolation from the Department of Revenue (DOR) monitoring report (Method 3) estimates final collections at \$130 million or 5.2% above HJ 2. The DOR extrapolation uses the last five years' collection patterns to extrapolate year-end results, while the two LFD analyses use patterns dating back to 2002. In more recent years, a greater proportion of revenue is collected in the first half of the fiscal year than in the past, explaining the discrepancy between the DOR extrapolation and those done by the LFD.

The following graph shows a breakdown of what sources are responsible for growth above HJ 2 in the cash-concept model.

Individual and corporation income account for nearly 87% of the total general fund revenue difference of \$83.0 million relative to HJ 2.



YEAR-TO-DATE GENERAL FUND REVENUE

General Fund Revenue Monitoring Report (\$ Millions)								
Revenue Source	Actual FY 2019	HJ 2 FY 2020	HJ 2 Est. % Change	Jan FY 2019	Jan FY 2020	YTD Difference	YTD % Change	YTD % Change
Largest Seven Sources								
Individual Income Tax	\$1,429.010	\$1,410.943	-1.3%	\$900.960	\$980.575	\$79.616	8.8%	
Property Tax	289.212	302.470	4.6%	162.989	167.256	4.268	2.6%	
Corporation Tax	186.536	165.893	-11.1%	97.519	114.498	16.979	17.4%	
Vehicle Taxes & Fees	109.508	112.953	3.1%	56.343	58.593	2.250	4.0%	
Oil & Natural Gas Taxes	54.178	56.639	4.5%	15.805	11.291	(4.514)	-28.6%	
Insurance Tax	76.141	81.158	6.6%	29.952	30.874	0.923	3.1%	
Video Gaming Tax	63.228	60.248	-4.7%	31.432	32.215	0.783	2.5%	
Other Business Taxes								
Drivers License Fee	3.976	4.370	9.9%	2.354	2.436	0.082	3.5%	
Investment Licenses *	8.182	16.040	96.0%	7.183	14.438	7.255	101.0%	
Lodging Facilities Sales Tax	26.703	26.380	-1.2%	12.579	13.932	1.354	10.8%	
Public Contractor's Tax	3.597	3.579	-0.5%	4.711	5.360	0.649	13.8%	
Railroad Car Tax	3.594	3.878	7.9%	3.077	3.330	0.252	8.2%	
Rental Car Sales Tax	4.431	4.039	-8.8%	2.412	2.238	(0.174)	-7.2%	
Retail Telecom Excise Tax	13.224	11.927	-9.8%	4.460	3.819	(0.640)	-14.4%	
Other Natural Resource Taxes								
Coal Severance Tax	14.091	13.731	-2.6%	6.864	4.557	(2.307)	-33.6%	
Electrical Energy Tax	4.185	4.416	5.5%	2.327	1.882	(0.445)	-19.1%	
Metal Mines Tax	6.907	6.767	-2.0%	0.154	0.069	(0.085)	-55.3%	
U.S. Mineral Leasing	21.570	20.891	-3.1%	8.372	7.979	(0.393)	-4.7%	
Wholesale Energy Trans Tax	3.490	3.464	-0.8%	1.732	1.151	(0.580)	-33.5%	
Other Interest Earnings								
Coal Trust Interest Earnings	18.172	17.315	-4.7%	8.459	8.441	(0.019)	-0.2%	
TCA Interest Earnings	22.036	27.318	24.0%	9.330	11.450	2.120	22.7%	
Other Consumption Taxes								
Beer Tax	3.041	3.074	1.1%	1.573	1.622	0.049	3.1%	
Cigarette Tax	27.500	26.687	-3.0%	16.380	15.683	(0.696)	-4.3%	
Liquor Excise Tax	21.946	24.153	10.1%	11.326	12.271	0.945	8.3%	
Liquor Profits	12.500	13.506	8.0%	-	-	-	-	
Lottery Profits	12.215	14.603	19.6%	2.684	1.806	(0.878)	-32.7%	
Tobacco Tax	5.869	6.279	7.0%	3.059	3.037	(0.022)	-0.7%	
Wine Tax	2.478	2.554	3.1%	1.312	1.327	0.015	1.2%	
Other Sources								
All Other Revenue	98.800	41.259	-58.2%	40.003	25.739	(14.264)	-35.7%	
Highway Patrol Fines	3.862	3.848	-0.4%	1.894	1.801	(0.092)	-4.9%	
Nursing Facilities Fee	4.416	4.087	-7.5%	1.432	1.607	0.175	12.2%	
Public Institution Reimbursement	15.991	11.396	-28.7%	5.698	5.910	0.212	3.7%	
Tobacco Settlement	3.034	2.603	-14.2%	0.337	-	(0.337)	-100.0%	
Ongoing Revenue Subtotal	2,519.566	2,508.465	-0.4%	1,435.710	1,543.090	107.379	7.5%	
OTO Revenue & Transfers Subtotal	54.055			19.000	4.100	(14.900)		
Grand Total	\$2,573.621	\$2,508.465	-2.5%	\$1,454.710	\$1,547.190	\$92.479	6.4%	
*In January, \$12.9 million of investment license revenue had been posted in all other revenue. For the purpose of this report it was corrected.								

MAJOR SOURCES

The next section provides an update on the state's top seven general fund sources as well as those remaining sources that show a difference of at least \$1.0 million from last year

INDIVIDUAL INCOME TAX: CURRENTLY ABOVE ESTIMATE

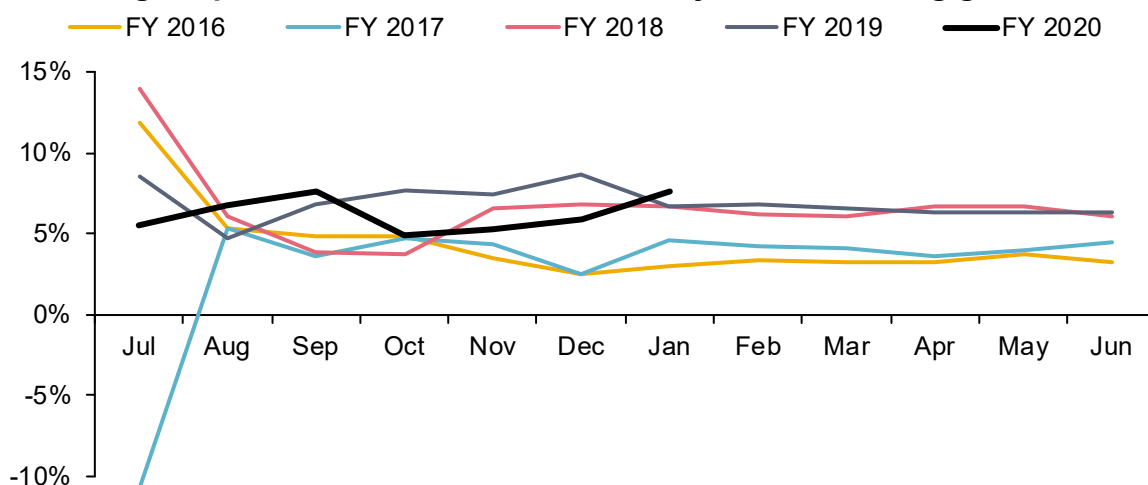
Individual income tax collections through the end of January are \$79.6 million or 8.8% above the year-to-date collections in FY 2019, far above the -1.3% growth anticipated in HJ 2. The year-over-year increase has been driven by strong withholding and estimated payments.

Individual Income Tax (\$ Millions)

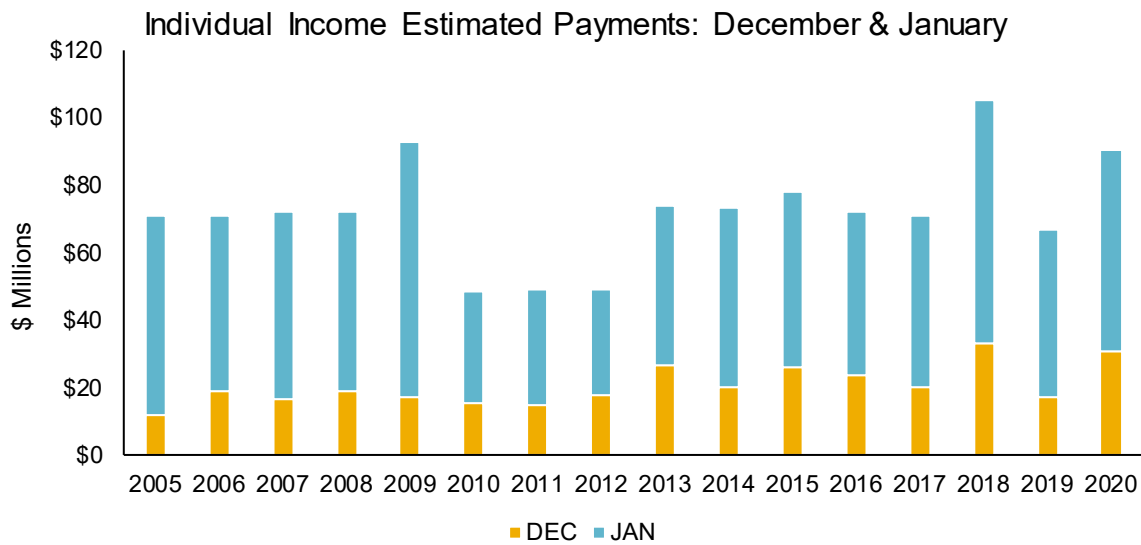
Account	YTD 2020	YTD 2019	\$ Difference	% Difference
Withholding	\$643.7	\$598.2	\$45.4	7.6%
Estimated Payments	204.3	175.3	29.0	16.6%
Current Year Payments	26.8	21.1	5.8	27.4%
Audit, P&I, Amended	23.2	21.5	1.7	7.8%
Refunds	(86.0)	(88.0)	2.0	-2.3%
Refund Accrual Reversal	152.8	161.9	(9.1)	-5.6%
Partnership Income Tax	11.0	7.2	3.7	51.6%
Mineral Royalties	4.8	3.8	1.1	28.3%
Total	\$980.6	\$901.0	\$79.6	8.8%

Withholding accounts for over two-thirds of individual income tax and about one-third of total general fund revenue, and is continuing to increase compared to FY 2019 collections. As shown in the following chart, withholding growth tends to be relatively variable in the first half of the year, but stabilizes by February, allowing for potential assessments of overall fiscal year withholding growth.

Cumulative year-over-year withholding growth stabilizes by February, allowing for potential assessments of fiscal year withholding growth.



The timing of estimated payments can fluctuate between December and January, and this year's January payments were quite strong. Estimated payments in December and January in FY 2018 were extremely high, likely in response to federal tax reform. In FY 2019 these payments returned to more traditional levels.



PROPERTY TAX: SLIGHTLY BELOW ESTIMATE

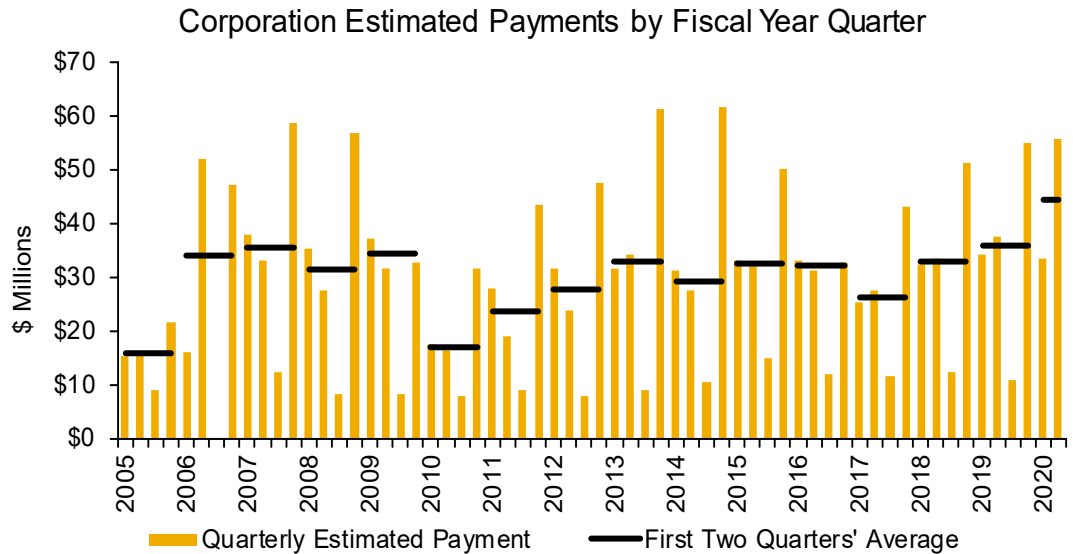
Property tax collections are above last year by \$4.3 million or 2.6%, but below the increase of 4.6% anticipated in HJ 2. There has been only one of two large property tax payments made, and property tax is a relatively stable source of revenue for the state. Property tax is still anticipated to come in close to the HJ 2 estimate.

CORPORATION INCOME TAX: CURRENTLY ABOVE ESTIMATE

Corporation income tax collections through the end of January are 17.4% or \$17.0 million above this time in FY 2019. As the chart below shows, current payments and estimated payments have seen extremely strong year-to-date growth, and have more than offset the declines in other corporation income tax accounts.

Account	YTD 2020	YTD 2019	\$ Difference	% Difference
Corporation Tax	\$24.1	\$14.4	\$9.8	67.9%
Estimated Payments	92.0	75.5	16.6	22.0%
Refunds	(11.7)	(5.7)	(6.0)	105.2%
Refund Accrual Reversal	4.0	4.9	(0.9)	-18.7%
Audit, P&I, Amended	6.0	8.5	(2.4)	-28.8%
Total	\$114.5	\$97.5	\$17.0	17.4%

The adjacent chart shows that estimated payments in the first two quarters of FY 2020 are significantly above the estimated payments collected in recent years. Estimated payments typically make up 80% of total corporation income tax collections, so if this strong growth continues this source is likely to end up well above the HJ 2 estimate.



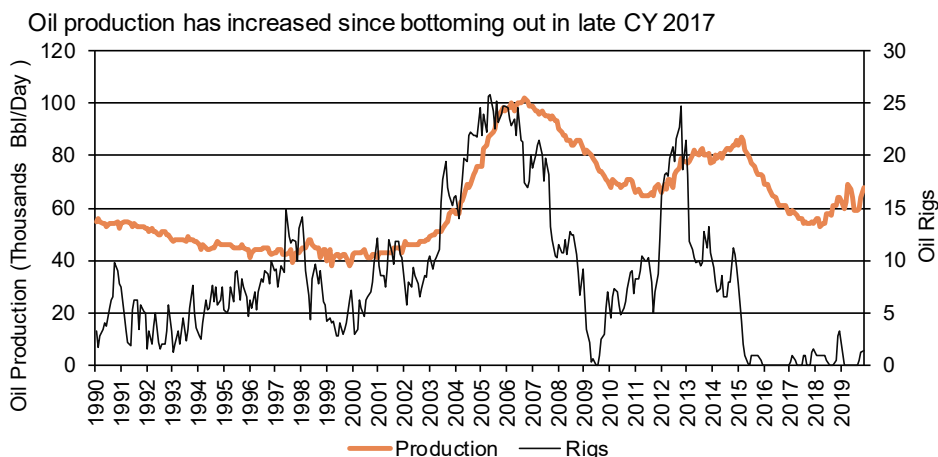
VEHICLE FEES & TAXES: SLIGHTLY ABOVE ESTIMATE

Seven months into FY 2020, vehicle taxes and fees are 4.0% or \$2.3 million above collections from last year. In HJ 2 this source was expected to grow by 3.1%, so thus far this source is tracking near the estimate.

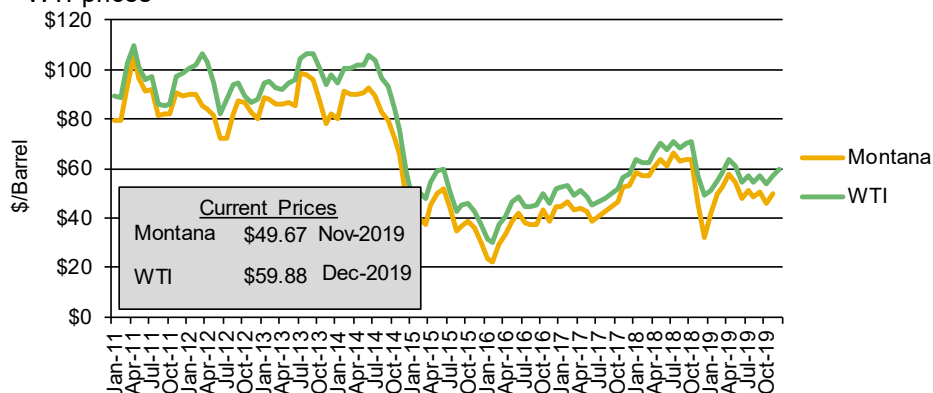
OIL & NATURAL GAS PRODUCTION TAX: BELOW ESTIMATE

At the end of January, the first quarter of oil and gas production taxes were posted to the state accounting system. Compared to the first quarter last year, collections were down \$4.5 million. This was expected due to the price differences between the two quarters, as seen in the chart below. However, prices in the second quarter last fiscal year dropped, so this year's second payment will likely be larger than last year's. Through the first quarter of FY 2020, production data has mirrored that of FY 2019.

As the chart to the upper-right shows, oil production bottomed out at the end of CY 2017, and has increased since then.



In CY 2019, Montana oil prices have averaged 12% lower than WTI prices



INSURANCE TAX: ON TRACK

Year-to-date insurance tax collections are 3.1% or \$0.9 million above last January. This is consistent with collection patterns in previous years and is currently on track to meet the revenue estimate for this source.

VIDEO GAMING TAX: CURRENTLY ABOVE ESTIMATE

Revenue from video gambling is currently \$0.8 million or 2.5% above collections from last year. This source was expected to remain flat throughout the biennium, but FY 2019 saw growth of 4.8%. As a result, even if this source remains flat it will come in above estimate.

OTHER KEY DIFFERENCES:

INVESTMENT LICENSES: ON TRACK WITH ESTIMATE

Currently, investment license revenues are \$7.2 million or 101% above last year's collections. The increase was anticipated due to the passage of [HB 694](#), which increased fees paid by investment firms.

LODGING FACILITIES SALES TAX: CURRENTLY ABOVE ESTIMATE

Through January, lodging facilities sales tax collections have grown by 10.8% or \$1.4 million. This is coming off a strong FY 2019, in which collections grew by 10.8%. As a result, year-to-date collections are above the HJ 2 estimate, which anticipated a drop of 1.2%.

COAL SEVERANCE TAX: CURRENTLY BELOW ESTIMATE

Coal severance tax collections through January are \$2.3 million or 33.6% below last year's collections, and below HJ 2 which anticipated a decline of 2.6%. Production has decreased this fiscal year, but not in the amounts reflected in the tax collections. Therefore, the drop is likely a combination of decreased production and timing of payments.

TCA INTEREST EARNINGS: SLIGHTLY BELOW ESTIMATE BUT STRONG YTD GROWTH

Treasury cash account interest earnings are \$2.1 million or 22.7% above collections last year at this time, and slightly below the HJ 2 anticipated growth of 24.0%. Short-term interest rates are currently lower than what was anticipated in HJ 2, likely explaining the small deviation from HJ 2.

ALL OTHER REVENUE: ABOVE ESTIMATE

To date, all other revenue collections are 35.7% or \$14.3 million below last year's collections. This source was expected to decrease by 58.2% in HJ 2. This will ultimately materialize, as [HB 6 \(2017 Special Session\)](#) authorized numerous one-time-only transfers that occurred in the second half of FY 2019.